MARK GOTTLIEB

Speaker Pro Tempore
Wisconsin State Assembly

Testimony of Rep. Mark Gottlieb
Assembly Bill 184
Assembly Committee on Urban and Local Affairs
March 27, 2007

Mr. Chairman and Committee Members:

Thank you for the opportunity to speak before you on Assembly Bill 184 (AB 184), relating to the investment by certain local units of government of funds held in trust to provide post-employment benefits.

Last session the Legislature passed, and the Governor signed into law, Assembly Bill 167 (WI Act 99) allowing school districts to create trusts to invest and reinvest funds to help pay for the increasing costs of other post-employment benefits, otherwise called OPEBs. OPEBs include, but are not limited to, retiree health care benefits and life insurance. Previous to the enactment of Act 99, the Milwaukee Public School District was the only entity authorized to hold funds in trust to pay for other post-employment benefits.

Much like WI Act 99, AB 184 will allow all local units of government to create a trust to invest and reinvest funds to expand their investment opportunities to help pay OPEB costs – using the guidelines established in the Uniform Prudent Investor Act. The Uniform Prudent Investor Act, developed by the Uniform Law Commission in 1914, and which took effect in Wisconsin on April 30, 2004, provides rules for governing investments that result in protection for trust assets while providing the prospect for increased income. AB 184 puts other Wisconsin governmental entities on an equal footing with school districts.

OPEBs are unfunded liabilities held by state and local governmental units because of contractual promises made to public employees. The most significant OPEB facing these governments is health care – even more so than unfunded pension liabilities. Most governments provide some form of health-related benefits, but very few actually prefund the benefits.

In December of 2006, the General Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For the first time, by 2008, state and municipal governments will be required to account for other post-employment benefits and pensions. The new GASB statement "was issued to provide more complete, reliable, and

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decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees."

Prior to GASB 45 governments typically followed pay-as-you-go accounting principles which meant that OPEB costs weren't calculated until after employees retired. Now, governments will be forced to apply GASB 45 accounting principles to report "annual OPEB cost and their unfunded actuarial accrued liabilities for services rendered". In essence, the new regulations will improve transparency in government accounts by making it easier to know what the future liability for OPEB expenses will be for a given government and to assess whether they have a strategy for meeting these requirements.

Unlike other states and local governments, the State of Wisconsin took action against its unfunded accrued pension and OPEB liabilities by issuing $1.3 billion in bonds in the 2003 state budget. While the refinancing of our liabilities will eventually cost taxpayers about $3.6 billion to retire the bonds, it saved $324 million in the long term. The impact on taxpayers is not insignificant by any means, but this gives you a glimpse of what we are facing when all local governments are forced to open their books and fully account for what they owe in unfunded liabilities. An article written in the Wisconsin Policy Research Institute Report by former Secretary of Administration George Lightbourn suggest that over a twenty-year period unfunded pension liabilities for local governments will cost taxpayers over $5.5 billion and unfunded healthcare liabilities for local governments outside of Milwaukee could total $5 billion. Mr. Lightbourn estimates that to eliminate unfunded pension and retiree health care liabilities will cost all state and local governments approximately $17.4 billion.

This bill does not fix the potential unfunded liability crisis for local governments. However, it does give local governments a tool to assist them in raising the necessary funds to pay off their OPEB liabilities.